



PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO
607 North 8th Street
BOISE, IDAHO 83702

MINUTES
OF
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the PERSI Administration Building, 607 North Eighth Street in Boise, Idaho at 8:30 a.m., December 19, 2000. The following members were present:

Chairman Jody B. Olson
J. Kirk Sullivan
Dennis L. Johnson
Susan K. Simmons
Pamela I. Ahrens

Executive Director Alan H. Winkle, Deputy Attorney General Brad Goodsell, Chief Investment Officer Robert Maynard, Deputy Director Ted Aho, Medical Advisors B. Strouth, John Mather and Craig Beaver, and Management Assistant Joanne C. Ax were also in attendance. Other persons attending portions of the meeting were:

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| Doug Dorn | Dorn, Helliesen & Cottle |
| Richelle Sugiyama | Dorn, Helliesen & Cottle |
| Ted Kunz | Dorn, Helliesen & Cottle |
| Drew Black | D.B. Fitzpatrick & Co |
| Brian McGrath | D.B. Fitzpatrick & Co |
| Rod MacKinnon | Mountain Pacific Investment Advisors |
| Bruce Reeder | Mountain Pacific Investment Advisors |
| Brent Nye | Boise School District |
| James Coleman | PERC – Retired Teachers |
| Robert Schmidt | Milliman & Robertson, Inc. |
| Dale Tankersley | Retiree |
| Steve Purvis | City of Boise/ AIC |
| Dick Martin | IPEA |
| Lucinda Smith | Mellon Trust |
| Doug Cook | Mellon Trust |
| Bill Kincaid | Mellon Trust |
| Howard Sherman | Mellon Trust |
| Phil Suess | Mercer |
| Jane Buser | BSU |
| Dennis Doan | Professional Fire Fighters of Idaho |
| Susan Shaw | PERSI |

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|---------------|-------|
| Rhonda Yadon | PERSI |
| Judy Aitken | PERSI |
| Maxine Thomas | PERSI |
| Bill Duncan | PERSI |
| Gay Lynn Bath | PERSI |
| Carol Boylan | PERSI |

EXECUTIVE SESSION:

Chairman Olson noted for the record the necessity to hold an executive session to discuss matters exempt from disclosure as provided in Chapter 3, Title 9, Idaho Code and that Idaho Code §67-2345 (1)(d) authorizes the same. By motion duly made by Trustee Simmons, seconded by Trustee Sullivan and unanimously approved, the Board went into executive session at 8:31 a.m.

After discussion of each disability application, the Board resumed the regular session at 8:41 a.m. By motion duly made by Trustee Simmons and seconded by Trustee Johnson, the Board unanimously approved the disability applications of Marian Mottern, Warren Perkins, and James Tate with no review; Connie Terry and Marilyn Weingart with a review in one year; Judith A. Sylte with a review in two years. In the same motion, the application of Sue Ellen Jacobson-Hirtle was denied, not meeting the requirements of the PERSI disability program.

OLD BUSINESS:

Approval of the Minutes: Trustee Johnson asked that the sentences, "Trustee Johnson moved and Trustee Sullivan seconded to table any recommendation regarding legislation. The motion passed unanimously." be added to the paragraph regarding the Retiree Medical Insurance Feasibility Study. By motion duly made by Trustee Johnson and seconded by Trustee Sullivan, the Board unanimously approved the minutes of the November 28, 2000 regular meeting of the Retirement Board with those changes.

By motion duly made by Trustee Sullivan seconded by Trustee Simmons, the Board unanimously approved the minutes of the December 12, 2000 Galena Update Meeting.

PORTFOLIO

Portfolio Report: Doug Dorn of Dorn, Hellieson and Cottle reviewed the investment performance and strategy report for the period ending November 30, 2000. For the month, the Total U.S. Equity portion returned a negative 8.1% and the Total Global Equity portion returned a negative 6.8%; the Private Equity portfolio was assumed to have a 0% return; the Russell/Mellon preliminary return for the Real Estate portfolio was 0.7%; The Total Equity portion, including the international hedged positions returned a negative 7.0%; the Total Fixed Income portion returned 1.5%. For the month of November the Total Fund return was reported as a negative 4.3%. The asset allocation has been rebalanced to the target. Mr. Dorn reviewed individual manager performance. CIO Robert Maynard said Richelle Sugiyama is working on a project for PERSI to revamp and upgrade the guidelines for our investment managers. He thanked her for her work on the project, saying the guidelines will be a key part of risk control and monitoring.

Monthly Portfolio Update and Mellon Report: Mr. Maynard reviewed his Investment Report dated December 19, 2000, which showed a total fund return of negative 3.2% for the fiscal year to date and a month-to-date return of 1.8%. Commenting on the report, the CIO said the uncertainty continues, with earnings concerns, and some signs of more serious economic slowdowns, all combining to pressure world equity markets. Large Cap Growth stocks and

emerging markets have been particularly hard hit. There is a general consensus that the Fed is likely to lower interest rates over the next year, starting perhaps as early as this week. The total fund and each of the accounts are performing better than expected given the current market conditions. International and growth oriented managers are having difficult times, both absolutely and some against their benchmarks (e.g., Columbus Circle and Barings), while value oriented equity managers (e.g., Brandes, Tukman and Mountain Pacific) are doing very well. He told the Board that in January 2001, he intends to start arranging the portfolio in anticipation of the gain sharing allocations, most likely adjusting proportionately throughout the portfolio.

Hamilton Lane Advisors Private Equity Report: Mario Giannini reviewed his Investment Review report dated September 30, 2000. The report provided details on the private equity investments, the real estate investments and various characteristics of the portfolio. In response to a question from the chairman, Mr. Maynard said while about 2.7% is actually invested, that is about half of what is committed to this sector. He said new offerings are reviewed by the investment committee – Mr. Maynard, Consultant Doug Dorn, Trustee Simmons and Mr. Giannini. Regarding the writedown of SCI and the difficulties of McCown DeLeeuw & Co., Mr. Giannini discussed the causes which include a company bankruptcy and loss of critical staff.

Other Investment Business: The Chairman opened the floor to comments from managers who were attending the meeting. Discussion of the economy included the comment that just as it took a long time for rising interest rates to slow the economy, lowering them will slowly recharge the economy and with expectations of a continuing slowdown of earnings into 2001. Economist Brian McGrath said current economic indicators show that the economic decline is much sharper than the Fed's expected when they raised rates the last time.

CIO Maynard informed the Board that he has taken on three outside assignments. He will serve on the advisory board for the Alaska Permanent Fund and the Institute of Electrical and Electronic Engineers. Governor Kempthorne has also asked him to serve on a task force to review and restructure the Department of Lands. Chairman Olson said the PERSI Board supports Mr. Maynard in these assignments, lending his expertise and participating in this global economy.

GAIN SHARING:

Mellon/Dreyfus Record Keeping Presentation: Lucinda Smith told the Board that the daily valuation for 41 portfolios for about 7000 assets is beginning. PERSI is among the pioneers in this area. Mr. Maynard said others have a similar system for internal balancing, but not for participant pricing guarantees. Reviewing their report which they provided to the Board, Doug Cook gave an overview of the financial corporation and staffing. Lucinda Smith explained the services of custody and record keeping and the timelines of implementing the gain sharing program. Howard Sherman is working daily with PERSI staff as senior project manager for the implementation. Mellon staff members are working with the education vendor, ETI, and with PERSI staff on a daily basis to finalize details. Details of how the websites and phone calls will be linked and transferred were discussed. Letters to participants are nearly finalized, as is the design of the participant statements. Security issues are being addressed; a "splash" web page will be hosted by PERSI with links to the education and record keeping pages. Chairman Olson asked how many participants have internet access. Deputy Director Aho said it has been more than a year since we surveyed our participants; at that time, about 80% had access with 30-40% using on a daily basis. Executive Director Winkle said access is good. In October, Governor Kempthorne clarified in a memorandum to agency heads that State Employees should be permitted to utilize the Internet to participate in State supplemental retirement programs.

Mercer – Investment Option Search Process: Philip Suess of William M. Mercer Investemnt Consulting, Inc., spoke to the Board regarding the suggested investment selection criteria for the gain sharing plan. He provided a report with details of how each manager and mutual fund would be evaluated and rated for recommendation to the PERSI Board. He discussed the national research group whose role is to track managers and select those driven by consistent performance in their areas. Mr. Winkle told the Board that if they wish to include specific providers in this evaluation process, Mercer will include them in their analysis and screening. They expect to have a recommendation to the Board for the February Board meeting. Chairman Olson asked if this process is the same as manager selection for our DB plan. Mr. Maynard said the most recent manager selection process had been delegated to a sub-committee who then presented the final recommendations to the Board. Prior to that, the Board interviewed and hired individual managers. By motion duly made by Trustee Ahrens seconded by Trustee Sullivan and unanimously approved, the Board affirmed the investment options proposed and authorized the Mercer company to proceed with an investment management search according to Mr. Suess' proposal dated December, 2000.

Rules Amendments: Deputy Attorney General Brad Goodsell had previously contacted the Board regarding one amendment to the temporary and proposed gain sharing rules. By motion duly made by Trustee Sullivan, seconded by Trustee Ahrens and unanimously approved, the Board readopted the temporary and proposed rules in Docket No. 59-0108-0101, as amended by the addition of a new section now designated as Rule 308. The effective date of the rules remains December 1, 2000.

FISCAL

Fiscal Update: Financial Officer James Monroe reviewed his fiscal issues summary, saying that the current tenant of the 820 property, iSaySo.com. has an agreement in progress to extend their lease for another year. The Board suggested that the issue of the best use of the building and property be reviewed in the coming year. Mr. Maynard offered the assistance of the Investment office to review it. The property is not part of the investment portfolio.

Expense Reports: Mr. Monroe reviewed the Portfolio and Administrative Expense Reports for the month of November, 2000. There was a question from Trustees regarding the encumbered funds. Financial Officer Jim Monroe will provide details to the Board members of how those funds will be used, as well as details of the use of funds from Galena project penalties. Some independent contractors are working on necessary changes to assist in meeting PERSI time frames.

EXECUTIVE DIRECTOR

Disability Claims Outsourcing Presentation: Field Services Manager Judy Aitken provided a historical review of the PERSI disability program. Since 1997, the process of improving the application and approval process has been evolving. Beginning this month, Value Plan Administrators, Inc. (VPA) has begun handling new disability applications. The Board will continue to consider applications which are currently in process; eventually they will hear only appeals. The Chairman thanked Trustees Ahrens and Johnson for the time they spent assisting staff in this move to a Third Party Administrator process.

Retiree Medical Draft Legislation: At the previous meeting, the issue of supporting legislation to authorize the Board to study and develop a pre-funding mechanism for Retiree Medical Expenses had been tabled. Trustee Sullivan said that during the month he had the

opportunity to visit with several people interested in this. After visiting with those on both sides of the issue, and after looking at the workload of the PERSI staff and Mellon in implementing the gain sharing program, he does not believe we have a large enough staff to do what we would need to do. He recommended that the issue remain on the table for some time in the future. The Chairman asked Trustee Johnson, who had Chaired the Retiree Medical Advisory Committee, if he had any comments; Trustee Johnson had nothing further to add.

FRF Valuation Approval: The Board had previously received copies of the final FRF Valuation. By motion duly made by Trustee Johnson seconded by Trustee Simmons the Board unanimously approved the Idaho Firefighters' Retirement Fund Actuarial Valuation dated July 1, 2000. Mr. Winkle noted that a good gain on the actuarial liability had been made; it is down from an expected amortization of 15 years to eleven years as of July 1, 2000.

Status Update: The Board had previously received the monthly status memo, which summarized the projects in which PERSI is involved. Trustee Sullivan said he and Trustees Ahrens and Simmons had met with staff about the Galena project earlier in the month. He said the staff was well prepared for the open discussion about the project. Everyone is disappointed that the project has taken so long. Trustee Ahrens said staff is doing a great job handling the frustration of the situation, feeling a lack of commitment of the vendor. Trustee Simmons echoed the sentiment, saying it appears the finish line is finally coming into view; getting payroll done is a big relief. The Trustees who attended the Galena meeting said they felt better about the project after that meeting. The Chairman thanked the Trustees for taking the time to look into the issue.

Mr. Winkle said gain sharing is progressing well. Howard Sherman of Mellon is doing an excellent job as project manager. Staff is confident this will be an excellent program. IT Manager Carol Boylan is programming our own systems to accommodate the 13th check and gain sharing amounts. The purchase of service calculator will be on the web the first part of 2001. We have many "shoppers" but, so far, only three people have used the program. He distributed copies of the new handbook to Board members. Basic information about both the DB Base plan and the DC Choice plan is provided in the book. It is also available on the PERSI website at www.persi.state.id.us.

New Employer: By motion duly made by Trustee Sullivan seconded by Trustee Simmons and unanimously approved, the Board welcomed Spirit Lake Fire Protection District as a new PERSI employer with an effective entry date of April 1, 2000.

Other Business: Mr. Winkle told the Board that he will address the legislative Committee on Employee Compensation (CEC) on January 4 and 5th. On January 9, he will address the Joint Finance and Appropriations Committee to provide information on gain sharing from 9:30-10:30. On January 17th, he will talk with new legislators about gain sharing if they have not already attended one of the presentations. PERSI's budget hearing before JFAC is scheduled from 10:-10:30 on February 6.

Adjournment: There being no further business to conduct, by motion duly made by Trustee Ahrens, seconded by Trustee Sullivan and unanimously approved, the meeting was adjourned at 11:15 a.m.

FUTURE BOARD MEETINGS

Tuesday, January 23, 2001 8:30 a.m., Boise - PERSI office

Tuesday, February 27, 2001, 8:30 a.m., Boise - PERSI office

Tuesday, March 20, 2001, 8:30 a.m., Boise - PERSI office

Tuesday, April 24, 2001, 8:30 a.m., Boise - PERSI office

Jody B. Olson
Chairman

Alan H. Winkle
Executive Director